COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY FOR AUTHORIZATION TO AMEND GAS MAIN EXTENSION POLICY	)))	CASE NO. 91-460

O R D E R

On December 11, 1991, The Union Light, Heat and Power Company ("ULH&P") filed an application for Commission approval to amend its Rider X, "Main Extension Policy," as contained within its gas tariff, Ky. P.S.C. Gas No. 5, Sheet No. 60. The application was made pursuant to 807 KAR 5:022, Section 9, Paragraph (16)(d), which allows a utility to make extensions of service under arrangements different from those prescribed by regulation, provided such arrangements have been approved by the Commission.

On July 21, 1992, a public hearing was held in Commission offices to hear testimony regarding the issues in this case.

ULH&P's current tariff, in compliance with 807 KAR 5:022, Section 9 (16), provides that the utility shall make an extension of 100 feet or less to an existing distribution main without charge for each qualifying customer. The customer must apply for and contract to use service for one year or more. When the length of an extension exceeds 100 feet per qualifying customer, the utility shall require the total cost of the footage in excess of 100 feet per customer to be deposited with the utility by the applicant based on the estimated cost per foot of main extensions.

ULH&P's approved tariff states that the Company will require the total cost of construction in excess of the 100 feet to be placed on deposit with the utility. However, ULH&P's actual practice is to require a contribution in aid of construction at the rate of $10.00 per foot for the excess footage.[1]

The August 1989 Management And Operations Review of ULH&P performed by Schumaker & Company ("Schumaker"), an independent management consulting firm, included a recommendation relating to ULH&P's gas main extension policy. Specifically, Schumaker recommended that ULH&P "analyze the current Company policy of collecting only a $10 per foot contribution, earnest money, even though actual costs are estimated to average $19.72 per foot, and Kentucky regulations have a provision for utilities to collect 100% of their costs over 100 feet." Schumaker recommended that ULH&P conduct a cost/benefit review of implementing a policy requiring developers to provide contributions equal to the actual construction costs rather than the current $10 per foot. Schumaker also recommended that ULH&P's analysis include a review of another utility in Kentucky, and to also determine the effect of ULH&P's current policy on existing customer rates.[2]

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1 Transcript of Evidence ("T.E."), July 21, 1992, page 8.

2 Management And Operations Review of Union Light, Heat And Power Company For the Kentucky Public Service Commission, August 1989, Schumaker & Company, page 160.

In addition to the finding that ULH&P was collecting only $10 per foot rather than the actual cost for extensions over 100 feet, this recommendation was also based on the finding that construction of new gas mains grew from 27,000 feet in 1985 to over 165,000 feet in 1988 while only 3,000 new customers were added to the system.[3]

In its application, ULH&P stated that the new main extension policy will more clearly link the level of investment in main extensions to the base revenue to be realized. This would be accomplished by making an economic evaluation of each main extension on a case-by-case basis. ULH&P further stated that while its current main extension policy provides a reasonable basis for balancing the new customers' right to service against existing customers' need for protection from unwarranted utility investment, the current policy did not weigh new customers' service requirements and sales revenues against the investment required in order to provide that service. Accordingly, ULH&P indicated that this shortcoming may result in uneconomic main extensions and require that the economic burden be shifted to other customers.[4]

ULH&P's proposed tariff provides for 2 payment options for customers whose extensions will exceed 100 feet. If the customer

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3 Id., page 148.

4 Id., pages 3 and 4.

chooses Option A and makes a contribution in aid of construction for any estimated extension deficit, this customer would receive no compensation when another customer hooks on to the line. However, if the original customer had chosen Option B, wherein a minimum monthly bill is assessed, that customer's contribution would be recalculated to reflect the usage of additional customers. These tariff provisions will result in inequities among customers in the same class depending on whether the customer pays all at once or over time and actually penalizes the customer who pays all at once. The Commission does not believe this represents a fair or reasonable policy for main extensions.

Clearly, any uneconomic or unwarranted utility investment is a result of ULH&P's internal policies regarding extensions. If ULH&P's gas customers have been required to absorb the difference between the actual construction cost and the $10 per foot deposit collected by ULH&P for extensions in excess of 100 feet, such an event could have been avoided by ULH&P. If ULH&P complied with its own tariff regarding payment for mainline extensions, ULH&P would have had the ability to protect itself and its customers from "unwarranted utility investment."

Moreover, ULH&P has not followed the recommendation by Schumaker, nor was any specific analylsis or report submitted to Company management. A task force formed by ULH&P simply drafted the proposed gas main extension policy, forwarded the policy to various Vice Presidents, and requested their comments and approval.[5]

Since ULH&P is currently bound by its approved tariff to require new customers to pay for the actual cost of new main construction in excess of 100 feet per customer, the effect of ULH&P's proposed main extension policy would be to require deposits for extensions of less than 100 feet if the revenue to be derived is determined to be insufficient. Based on information provided by ULH&P in response to Commission data requests, only 20 extensions of 100 feet or less were made during the three year period from 1989 through 1991.[6] Further, the total cost of 88 extensions during 1991 was $2,330,662, of which four were extensions less than 100 feet at a total cost of $24,142 or approximately 1 percent of the total. Clearly, the cost of extensions less than 100 feet does not appear burdensome.

The Commission shall review ULH&P's policies pertaining to contribution in aid of construction and its impact on ratepayers within the scope of ULH&P's application for an adjustment of rates.[7]

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5 T.E., July 21, 1992, page 50.

6 Response to the Commission's second data request, Item 7, filed May 5, 1991, and ULH&P's response to hearing question, filed August 3, 1992.

7 Case No. 92-346, In The Matter of An Adjustment of Gas Rates of The Union Light, Heat and Power Company, filed September 25, 1992.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that ULH&P's proposed tariff revision fails to address the needs of its customers, is unfair, unjust, and unreasonable, and should be denied.

IT IS THEREFORE ORDERED that:

1. ULH&P's proposed tariff be and it hereby is denied.

2. ULH&P shall make extensions to distribution mains in accordance with its filed tariff.

Done at Frankfort, Kentucky, this 29th day of October, 1992.

PUBLIC SERVICE COMMISSION

Chairman

Thomas M. Dorman

Vice Chairman

Robert M. Davis

Commissioner

ATTEST:

Don Mills

Executive Director